UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	Docket No. ER19-2347-000

MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE PACIFIC NORTHWEST JOINT COMMENTERS

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission ("Commission") Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 213 (2018), the Pacific Northwest Joint Commenters ("Joint Commenters")[1] move for leave to answer and submit the following answer[2] to the protest of the Public Utilities Commission of the State of California ("CPUC") filed in the above-referenced proceeding.[3]

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[1] For the purposes of this answer, the Pacific Northwest Joint Commenters include the Eugene Water & Electric Board, Public Generating Pool ("PGP"), Public Power Council ("PPC"), Public Utility District No. 1 of Chelan County, Powerex Corp., and Public Utility District No. 1 of Snohomish County.

[2] The Joint Commenters acknowledge that the Commission's rules do not typically allow answers to protests. *See* 18 C.F.R. § 385.213(a)(2). However, the Commission has accepted such answers in the past when they have assisted the Commission in understanding the issues presented, provided additional information for the Commission's decision-making process, and helped ensure a complete and accurate record. *See, e.g.*, *Equitrans, L.P.*, 134 FERC ¶ 61,250 at P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023 at P 16 (2010). The Joint Commenters request leave to file this answer to the protest filed in this proceeding because it will meet these criteria.

[3] *Cal. Indep. Sys. Operator Corp.,* Notice of Intervention and Protest of the Public Utilities Commission of the State of California, Docket No. ER19-2347-000 (July 23, 2019).

I.
ANSWER

A. Prices At Remote Geographic Hubs Represent Legitimate Opportunity Costs for Northwest Hydro Entities

The CPUC's protest centers on a specific component of CAISO's proposed new DEB option—namely, CAISO's proposal to permit an energy-limited hydroelectric resource to request that its default energy bid ("DEB") be calculated based on electric pricing hubs in addition to its local default electric pricing hub, upon a showing that it has firm transmission rights linking the resource to the proposed hub or an electrically similar location. As explained below, the Joint Commenters believe that the CPUC's stated concerns are misguided and premised on an unduly narrow view of the opportunity costs of resources located outside of the CAISO.

As numerous entities described in the course of the CAISO's stakeholder proceeding, energy-limited hydro resources outside the CAISO balancing authority area ("BAA") must choose not only when (and whether) to produce energy, but must also choose the particular geographic markets into which their output will be sold. Notably, several of the entities marketing the output of energy-limited hydro resources in the west, including several among the Joint Commenters, regularly transact at dozens of discrete geographic locations, including locations throughout the Northwest, CAISO import delivery points, the Desert Southwest, and in some cases, Alberta. For example, Powerex transacts at as many as 80 locations in the west in a given year.

CAISO's proposal recognizes that the opportunity costs of energy-limited resources outside of the CAISO BAA are driven by the opportunities to make sales in later time periods, and that those potential sales opportunities may arise at multiple physical locations throughout the west, at correspondingly different potential prices. For this reason, a DEB based only on current and future index prices at an external hydro resource's "default" geographic location (or closest local hub) has the potential to systematically understate the value of the opportunities in other locations throughout the west. For instance, for energy-limited resources located in the Pacific Northwest, the prices at the most proximate liquid trading hub (Mid-C) often represent the lowest-value market opportunity during certain months of the year. It is for this very reason that certain Joint Commenters and other northwest entities have made extensive investments in physical transmission service to enable the delivery of energy and capacity products from their resource locations to more distant geographic markets where more favorable opportunities frequently are available. To exclude these additional opportunities from the calculation of a resource's default energy bid would create a substantial risk that energy-limited resources would be dispatched in the EIM to sell energy at a price below their actual opportunity costs. As energy-limited hydro resource owners who participated in the underlying CAISO stakeholder proceeding explained, the prospect of inefficient depletion of hydro resources, resulting in foregone sales in higher priced periods and locations, would discourage robust participation in the EIM.

The CPUC's opposition to this aspect of the CAISO's proposed DEB formula is based on its assumption that any difference in prices between a resource's local hub and a distant hub should equal the value of transmission between the two locations. But this assumption is rooted in the dynamics of an RTO with LMP pricing—where the value of energy and the value of transmission are fully de-linked—and has no application in the western bilateral markets outside of the CAISO. In the context of an RTO, transmission rights are generally financial in nature, with the holder receiving the "congestion value" between two locations each and every hour, regardless of whether they have resource output that may flow on the path of the transmission rights. Similarly, opportunities to sell the output of a resource within an RTO can be independent of whether the seller also holds financial transmission rights on the paths over which the resource delivers its output. Notably, a core feature of organized markets with LMPs is to separate the efficient commitment and dispatch of physical resources from the collection of value related to investments in transmission rights.

But the CPUC's presumption does not apply in the bilateral western markets outside the CAISO. As Powerex, Bonneville and other stakeholders in the underlying LMPM stakeholder proceeding explained, the opportunity cost of foregone sales in a remote geographic location in the west cannot be captured by the price of the transmission alone, as is the case within an RTO. CAISO's proposal for the broader EIM footprint reflects the available data and the comments of numerous entities with direct experience selling the output of storage hydro resources in remote trading hubs across bilateral markets in the west, and is consistent with the view that at the present time, the opportunity costs of such resources are closely bundled with the value of OATT transmission rights to specific delivery locations in the broader western region.

CAISO's proposed DEB option establishes a reasonable and workable framework for taking into account the multiple commercial opportunities that are available to energy-limited resources located outside of the CAISO. While it would not be feasible to establish a DEB that took into account all of the potential commercial opportunities available to energy-limited resources throughout the west, CAISO's proposal will help ensure that such opportunities are generally taken into account in the calculation of an LMPM DEB, by allowing such a resource to request the addition of one or more among a discrete set of western trading hubs. At the same time, CAISO's proposal will ensure that the requested hub(s) represent a commercial opportunity that is actually expected to be available to the resource, by requiring a demonstration that the resource has existing firm transmission rights to the location(s) at issue, or a demonstrable history of purchasing such rights to make deliveries to that location.

B. The CPUC's Protest Does Not Take Into Account Or Reflect The Breadth Of Stakeholder Dialogue and Input Into The Stakeholder Process

The CPUC's protest cites concerns originally raised by the CAISO DMM and Market Surveillance Committee ("MSC") during the stakeholder process. Notably, however, both the CAISO DMM[4] and the MSC ultimately supported the CAISO's proposals as a package that workably accommodated a variety of relevant concerns and considerations raised by a diverse group of active stakeholders. The MSC, for example, recognized both the complexities of

[4] DMM Comments at 12 (stating that DMM supports the proposal in light of the special nature of hydro resources, the lack of a must-offer obligation in the EIM, and the competitive benefits that can come with increased participation by hydro resources).

estimating transmission value and that the pricing at remote geographic hubs would represent relevant opportunity costs for energy-limited resources under certain circumstances. In light of this and other considerations, the MSC concluded that it "support[ed] implementation of the proposed procedure, while recognizing its imperfections" and while recommending that the "ISO should monitor its performance over time" and make refinements in the future as needed.[5]

The ability of both the CAISO DMM and the MSC, along with a diverse group of stakeholders, to support the final proposal crafted by CAISO is a testament to the thorough and careful analysis that CAISO engaged in during the stakeholder process. Stakeholders with a broad and diverse range of interests—from in-state utilities to out-of-state entities with hydro and non-hydro resources—presented information and concerns on all issues raised in the CAISO's LMPM stakeholder process. The CAISO responded by engaging in its own analyses, and by working through compromise and "new" solutions to strike a balance that could provide sufficient flexibility in the computation of each hydro resources' DEB to account for the substantial variability in relevant opportunity costs, while limiting that flexibility in key ways to both ensure the calculation could be workably and reliably implemented, and to address other commenters' need for greater assurance and predictability.

Each element of the CAISO's proposed hydro DEB option—including the limited inclusion of remote geographic hubs and the use of longer-term forward

[5] CAISO Filing, Attachment H at 5.

pricing where suppliers can demonstrate the length of a given resource's storage horizon[6]—has been thoroughly considered by a diverse group of in-state and external stakeholders. Thus, the proposed tariff amendments are a just and reasonable solution that reflects a balance of considerations carefully vetted in a challenging and complex stakeholder process, where both the CAISO and stakeholders worked through a myriad of issues to arrive at a workable solution to enable and encourage the participation of Pacific Northwest hydro resources in the EIM, and potentially in other organized markets in the west as they develop.

II.
CONCLUSION

Wherefore, for the foregoing reasons, the Joint Commenters request that the Commission issue an order consistent with their comments and answer in this proceeding.

Respectfully submitted,

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[6] The Joint Commenters note that some hydroelectric storage resources in the Pacific Northwest have multi-year storage capabilities and, as a result, have storage capabilities in excess of 12 months. CAISO's proposed limitation to a storage horizon of twelve months—while perhaps unduly restrictive for multi-year storage facilities—nonetheless has been accepted by stakeholders with such facilities as a pragmatic compromise, striking a reasonable balance that can be readily implemented in the EIM.

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August 8, 2019

CERTIFICATE OF SERVICE

Pursuant to Rule 2010 of the Commission's Rules of Practice and Procedure, I hereby certify that I have this day served a copy of the foregoing on all persons designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 8th day of August, 2019.

/s/ Stephen J. Hug
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Document Content(s)

Powerex_Answer_LMPM_ER19-2347_08-08-2019.PDF...........................1-9